The Russian Money Laundering Scandal
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The high-level corruption that has permeated President Boris Yeltsin’s Russia for years provoked little interest in Washington until recently. When U.S. intelligence officials tried to warn Vice-President Gore several years ago about personal corruption on the part of then-Prime Minister Viktor Chernomyrdin, Gore reportedly returned the report to its authors with a “barnyard epithet” scrawled across it. The message was unmistakable – the Administration did not want to hear about corruption in Russia.

Billions of dollars of dubious origin from Russia began pouring through an account in the Bank of New York at least as early as last October. However, it required a tip-off from British intelligence authorities to finally launch an American investigation. Even then the investigation was kept quiet for five months until journalists recently uncovered the story.

There is a long history of American officials condoning corruption by foreign client states, from Marcos’ Philippines to Mobutu’s Zaire. As in some earlier cases, the US government’s role in Russia goes beyond guilt by association to bearing some responsibility for the character of the regime. It was misguided Western advice which launched Russia on the path that led to the scandal at the Bank of New York.

The Bush Administration in 1991-92, and thereafter the Clinton Administration, demanded that newly independent Russia follow economic “shock therapy” as a condition for Western aid and support. The shock therapy policy required, among other things, immediate privatization of Russia’s valuable state assets. Russia’s new rulers quickly complied and, in the absence of any legitimate wealthy class that could have fairly purchased the oil wells, natural gas reserves, and so forth, handed them over to influential insiders.

In this manner was born the small group of “oligarchs” who now control Russia’s economy. Some hoped that Russia’s new financial oligarchy, having been handed valuable enterprises for nothing, would proceed to develop and improve them, bringing modern capitalism to Russia. However, shock therapy’s other provisions -- the immediate lifting of government controls on an economy that lacked any other means of coordination, and drastic cuts in public spending of every type -- created economic chaos in which it is very difficult to make money producing and selling useful goods and services. Instead, the new oligarchs followed their profit motive into such activities as diverting oil export proceeds into their personal bank accounts, skimming revenues from bankrupt enterprises by selling bogus services via dummy corporations, lending money to the government at astronomical interest rates, and collecting gigantic rents from Western businesses locating in Moscow. Meanwhile, Russian industry was starved of investment, which has declined by more than three-fourths since 1991.

Doubting that they would be allowed to continue with such predations indefinitely, the oligarchs prudently sent much of their new earnings abroad. This contributed to an outflow of capital
from Russia recently estimated at $130 billion during 1992-98. Also joining this flow of capital were
the illicit earnings of criminal groups, from such sources as extortion from private businesses and
theft of state funds, activities that flourish in an environment of an impoverished state and chaotic
economy. Given the illicit origin of most of the capital flight from Russia, it was only a matter of
time before some respectable Western financial institution was found to be participating, however
unknowingly, in the laundering of these funds.

President Boris Yeltsin and his stable of so-called “reformers” have presided over the
creation and the ongoing operation of Russia’s predatory quasi-market system. Western favorite
Anatoly Chubais designed Russia’s corrupt privatization program. President Yeltsin himself twice
vetoed legislation that would have outlawed money laundering in Russia, most recently last July.
While a fortunate few have prospered under this regime, the majority, who work in the looted
enterprises, get paid many months late if at all, and are forced to survive largely on vegetables grown
in their small backyard plots.

The good will that ordinary Russians felt toward America in 1992 has been replaced by
feelings of humiliation and anger over the destruction of their economy and society by American-
sponsored rulers. This poses a very real danger to Russian-American relations in the near future,
after the Yeltsin regime passes into history. However, it is not too late to reverse the damage.

Russia’s wrecked economy can be salvaged only by a radical change in course, in favor of
a program of state guidance of the economy aimed at meeting the needs of ordinary Russians rather
than lining the pockets of a parasitical oligarchy. There are opposition groups in Russia, in the
political center and on the left, that are promising to do so within a democratic framework. Our
government can make partial amends by ending its presumption that the current Kremlin rulers are
the true democrats and reformers, by retiring the tired refrain that the alternative would be worse and
would only restore the defunct Soviet system, and by dropping its opposition to a change in Russia’s
current disastrous course.